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DDH GRAHAM LIMITED

JOSEPH PALMER & SONS PROPERTY FUND

ARSN 133 409 382

INFORMATION ON THE KEY RISKS AND FEATURES OF THE JOSEPH PALMER & SONS PROPERTY FUND
22 MAY 2015

INTRODUCTION

The Australian Securities and Investments Commission (ASIC) have issued Regulatory Guide; *Regulatory Guide 46: Unlisted Property Schemes – improving disclosure for retail investors (Guide)*. The *Guide* is aimed at improving disclosure to retail investors by responsible entities of unlisted property schemes. The Guide sets out a number of benchmarks and disclosure principals covering information that are key to analysing the risks and benefits associated with investing in unlisted property schemes.

Information in this document should be read in conjunction with the Joseph Palmer & Sons Property Fund (Fund) Product Disclosure Statement dated 28 November 2008 (Parts 1 and 2) (PDS) and Supplementary Product Disclosure Statement's issued 19 March 2009, 6 May 2011, 19 December 2013 and 22 May 2015 issued by DDH Graham Limited (DDH) ABN 28 010 639 219 AFSL 223 619

The PDS including the Supplementary Product Disclosure Statements are available on the DDH Graham Limited website at www.ddhgraham.com.au and Joseph Palmer & Sons website www.jpalmer.com.au.

The disclosure of this information is not materially adverse to members and has been prepared to provide members with a single document that clearly sets out the obligations of DDH Graham Limited under the *Guide*.

The information is subject to change and updates to this document will be made if there is a material change to the information, but in any event at least every six months as at the end of March and September of each year. This document is available on the websites of the responsible entity, DDH Graham Limited and the investment manager, Joseph Palmer & Sons.

Paper copy of this document is available by contacting DDH Graham Limited on:

Telephone: 61 7 3210 2277 or
Email: jpalmer@ddhgrahm.com.au

GEARING POLICY

Policy	Policy Explanation
The Fund will only borrow to make direct property acquisitions. Borrowings will not be used in making property securities investments. The responsible entity's aim is to maintain a gearing ratio (that is, the ratio of the Fund's total borrowings to the total gross value of its assets) for the Fund of 30% or less, over the medium to long term. However, borrowings may exceed this level for short periods of time, to enable the Fund to pursue particular acquisitions. When this occurs, the responsible entity will endeavour to apply additional equity raised to gradually reduce the Fund's level of borrowings. The responsible entity may, from time to time, also choose to reduce borrowings using proceeds from the sale of the Fund's liquid investments. All borrowings of the Fund will be on a limited recourse basis so that a financier's recourse in relation to amounts lent is to the Fund and its assets and not to investors and their personal assets. The gearing ratio for the Fund is calculated as follows: $$\text{Gearing ratio} = \frac{\text{Total interest bearing liabilities}}{\text{Total assets}}$$ As at 22 May 2015, the Fund's gearing ratio is NIL as the Fund has no interest bearing borrowings. The Fund is compliant with its gearing policy.	The gearing ratio indicates the extent the Fund's assets are financed by interest bearing securities; that is debt as opposed to equity. It will allow the investor to access the risks associated with debt: ▪ interest rate risks; and ▪ liquidity risks; These risks highlight the Fund's ability to meets its financial obligations and its exposure to interest rates which need to be serviced from the Fund's cash resources. The higher the gearing, the higher the exposure to the above risks. In practical terms a 30% gearing means that on a $100,000 property purchase, $30,000 will be financed by debt and 70% by member's equity. Such a policy is well within industry and normal banking lending practices in funding property asset purchasers.

INTEREST COVER POLICY

Policy	Policy Explanation
The Fund will maintain a minimum interest cover of 2.00 times measured every month as a year to date earnings before interest, tax, depreciation and amortisation divided by year to date interest expense. The Fund has currently no borrowings. The interest cover for the Fund is calculated as follows: $$\text{Interest Cover} = \frac{\text{EBITDA} - \text{unrealised gains} + \text{unrealised losses}}{\text{Interest expense}}$$ As at 22 May 2015 the Fund has Nil Interest Cover as the Fund has NIL interest bearing borrowings and incurs NIL interest expense. The Fund is compliant with its interest cover policy.	The interest cover indicates the extent the Fund's assets are financed by interest bearing borrowings and is a measure of the Fund's: ▪ ability to pay interest on such borrowings; and ▪ its safety margin when determining if the Fund is a good credit risk. The lower the ratio the more the Fund is burdened by the cost (interest) on its borrowings and may not be earning enough revenues to meet those costs. A higher ratio indicates the Fund is financially secure enough to meet its borrowing costs. An interest rate cover ratio of 2 times means that the Fund has the ability to cover is borrowing costs 2 times over from its cash generating revenues. The Fund's policy is consistent with normal banking covenants in lending monies to property funds purchasers.

INTEREST CAPITALISATION

Policy	Policy Explanation
As at 22 May 2015, the Fund has no borrowings. If in the future the Fund borrows to make direct property acquisitions it would the intention to structure the borrowing so that interest obligations are met by the Fund. Interest expense incurred by the Fund will be charged to the profit and loss account in the period it is incurred. The Fund is compliant with its interest capitalisation policy.	This policy will ensure interest costs are not added to the borrowings and therefore reducing net value of the Fund. The Fund's policy is consistent with normal industry practice and accounting standards as they apply to the Fund.

VALUATION POLICY

Policy	Policy Explanation
Valuations of real property are to be undertaken as follows: ▪ by a suitably qualified and licensed independent valuer with at least 5 years experience valuing property assets similar to that which is held by the Fund; ▪ a valuer will only be permitted to carry out two consecutive valuations of the same property; ▪ Before a property is purchased. The Fund does not have an investment mandate to invest in speculative development property, that is, acquiring land purely to develop and then sell development profit; ▪ within two months after directors of DDH Graham Limited form a view that there is a likelihood that there has been a material change in the value of property; and ▪ In any event at least annually. Appointments to carry out valuations of direct property are confirmed with a letter of engagement setting out all relevant instructions for such appointment. Investments in securities issued by listed property funds ("A-REITS" and "REITS") are valued at market , and securities issued by unlisted property funds are valued from information received by the issuer of securities and carried at that value until further updated information is received. The Fund is compliant with its valuation policy.	This policy will ensure that: ▪ Accuracy in calculation of the **net tangible asset value** of the Fund at any time which is calculated by subtracting from the value of the Fund's assets, all liabilities of the Fund (including any provisions the responsible entity considers should be taken into account). ▪ Accuracy of the net tangible asset value of the Fund on a per unit basis in pre-tax dollars (unit price) which is calculated by determining the net asset value of the Fund, adding an allowance for transaction costs (buy spread), and then dividing that amount by the number of units on issue at the time. The unit price is calculated by the responsible entity as and when required (usually monthly), in accordance with the Constitution and the responsible entity's unit pricing policy. The unit price is used in determining the issue price of units to members and withdrawal price when a withdrawal offer is available to members. The current unit price is available on the responsible entity's website. ▪ Accuracy of the Fund's gearing policy as calculation based on current value of assets. ▪ Compliant with bank loan covenants in respect of required gearing ratio under loan facilities. ▪ Preparation of statutory financial statements in accordance with accounting standards.

RELATED PARTY POLICY

Policy	Policy Explanation
All related party transactions must be of a type that are permitted under the Constitution and conducted on the basis of normal commercial terms and conditions: Such related party transactions are approved within the normal internal control procedures in conducting transactions in order to ensure such transactions are permitted under the Constitution and also in determining whether that third party is a related party. All other transactions between related parties; not authorised under the Constitution or not dealing at arm's length or on less favourable terms must be approved by members of the Fund by passing a resolution approving the transaction at a duly convened members' meeting**.** All related party transactions and balances are maintained in a related parties register. . The Fund is compliant with its related party's policy.	This policy will protect members interests in the Fund in that: ▪ related parties are identified and transactions are given proper consideration in the context of price and documentation to determine the transaction is on an arm's length term and permitted under the governing documents of the Fund. ▪ risk management tool in managing risk associated with fiduciary duties of directors and employees of DDH Graham Limited. ▪ It ensures a proper framework for decision making resulting in all transactions the Fund enters into is for the benefit of the members of the Fund.

DISTRIBUTION PRACTICES POLICY

Policy	Policy Explanation
In accordance with the Constitution of the Fund, the amount to be distributed to Investors will be determined at the absolute discretion of the Responsible Entity, but it will be based on the realised net income of the Fund. Distributions may from time to time include taxable income, tax-deferred component, a capital gains tax discount concession component as well as net capital gains. In addition, when an asset of the Fund is sold or redeemed, the responsible entity may at its discretion decide to return excess capital to members if a suitable reinvestment opportunity is not readily available at the time. It is the aim to make distributions from the Fund on a six monthly basis, following 31 December and 30 June each year. Distributions are usually paid within 60 days after the end of the relevant distribution period, by electronic funds transfer directly into an Investor's nominated Australian bank, building society or credit union account. If account details are not provided, distributions will be automatically reinvested under the distribution reinvestment plan. Only members named on the Unit register on the last day of a distribution period are entitled to distributions for that period. Members may choose to have all of their six monthly distributions reinvested, under the Fund's distribution reinvestment plan. Decisions as to whether a distribution will be paid are made following the end of the distribution period. It is not the practice of the responsible entity to forecast a distribution amount in advance of the distribution period. The Fund is compliant with its distribution practices policy.	This policy will protect members interests in the Fund in that: ▪ Distributions will be based on the performance of the Fund and therefore ensure the Fund retains sufficient cash resources to fund its operations. ▪ The most favourable tax benefit is obtained by the Fund and members.

PORTFOLIO DIVERSIFICATION

The Fund is an open-ended unlisted unit trust, which has a mandate to acquire property-related investments, such as property securities and direct property. The intention is to expand the portfolio asset base, with the aim of helping to reduce risk and enhance returns, through diversification.

Property Securities investments may comprise direct investments in listed property funds (otherwise known as "A-REITS" and "REITS"), investments in unlisted property funds,.

As at 22 May 2015, the below table shows the expected asset allocation ranges for the Fund, and the indicative target asset allocations intended to be achieved in the medium term.

Asset Class	Asset Range	Medium Term Target Allocation	Current Allocation
Property Securities	50-100%	95%	80%
Direct property assets	0 – 40%	0%	0%
Cash investments	0 – 10%	5%	20%

The Fund has not acquired any direct property asset. It is unlikely that in the near term that the Fund will make direct property purchases as the Fund has not yet reached a level where such purchases would satisfy its investment criteria.

However it will still be the intention that as the Fund increases in size (increase in members equity), the investment manager will seek to build up a portfolio of Australian property assets within the three main commercial real estate classes of office, retail and industrial properties.

Presently diversification of the property securities will be achieved by investing in a range of such securities based on the underlying property investments of the property fund.

The Fund will not invest in mortgage funds, residential property or speculative investment activity. The investment manager may also maintain a portion of the Fund in cash investments.

WITHDRAWAL ARRANGEMENTS

Under the Constitution investors have no right to withdraw from the Fund.

Members may only make a request to withdraw some of their investment in the Fund where there is a current withdrawal offer open for acceptance.

In accordance with the Constitution, the responsible entity may make limited withdrawal offers under which members will be able to request redemption of their units for cash.

Where the withdrawal requests exceed the amount available, requests will be scaled back and met proportionately.

The responsible entity may, in its discretion, suspend the making of withdrawal offers, cancel a withdrawal offer, or choose to increase or decrease the amount available for withdrawal if it considers it is in the best interests of members to do so, for example, if it considers the financial position of the Fund does not support a withdrawal offer being made at that time.

Withdrawal offers will be communicated to members at the time an offer is opened.